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J E I

R E P O R T

A Two-Part Report: A and B

NO. 1B
January 10, 1992

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Outlook For FY 1992 Reflects Caution

Two yearend events provided evidence that Washington's voice is heard clearly by Tokyo's macroeconomic policymakers. Two weeks before President Bush's visit to Japan and on the heels of a December 20 cut of 1 percentage point in the U.S. discount rate to 3.5 percent, the Bank of Japan announced a half-point reduction in the Japanese rate to 4.5 percent. The December 30 announcement, which took immediate effect, came nine days after the cabinet of Prime Minister Kiichi Miyazawa had approved an economic outlook for FY 1992 that arguably reflected the need to put the best face possible on Japan's external trade position, an approach apparently taken in the knowledge that Japan's large current account surplus inevitably would be a subject of January 7-10 talks between the American president and the Japanese leader.

Both actions, whether or not they were planned to do so, could make the president's trip go more smoothly. However, the still weakening Japanese economy would have provided sufficient rationale in itself for the BOJ action. The discount rate cut was designed as a signal to corporations that the central bank would do what was necessary to maintain a relatively easy monetary policy

aimed at encouraging firms to borrow money for plant and equipment investment. Reportedly, the timing of the decrease partly was meant to influence corporate investment decisions that typically are made in January or February for the fiscal year that starts April 1.

Beyond its domestic impact the discount rate cut played well in Washington, too. Coming as it did after the German central bank hiked rates on the same day the Federal Reserve Board dropped rates, the BOJ action demonstrated that Tokyo is in Washington's camp concerning the desired direction in worldwide interest rates. Inasmuch as lower U.S. rates, by themselves, typically would lead to a weaker dollar as investors avoided dollar-denominated assets, the Japanese discount rate cut served to support the American currency; further drops in the U.S. discount rate, if deemed necessary by the Fed, would be less difficult in light of BOJ's move. In addition, lower interest rates presumably would pep up the Japanese economy, encouraging somewhat faster growth that could draw in more imports. Of course, lower Japanese rates put pressure on the yen, which makes it weaker than it otherwise would be and thereby limits the increase in Japanese imports. Tokyo and Washington independently may have judged, however, that -- with the yen close to an all-time high against the dollar -- a weak Japanese currency need not be a major concern.

Like the cut in the discount rate, the government's economic outlook for FY 1992 reflected a number of considerations. As in the past, the Ministry of Finance and the Ministry of International Trade and Industry reportedly disagreed over the projected growth of gross national product in the upcoming fiscal year. The estimate for an inflation-adjusted increase of 3.5 percent, a drop from an expected rate of 3.7 percent in FY 1991, was a compromise between MITI, which wanted a higher rate, and MOF (see Table). The external sector created a different sort of problem. The Economic Planning Agency, which has primary responsibility for formulating the outlook, reportedly argued for incorporating a relatively high estimate for the current account surplus but apparently lost out to MITI and MOF; the two ministries were said to be worried about the impact of such a projection just prior to President Bush's visit. As a result, Tokyo officially expects the current account surplus to equal \$71 billion in FY 1992, a drop from an anticipated \$72.5 billion in the current fiscal year. An assumed average exchange rate of Y130=\$1.00 for FY 1992 implies that, in real terms, the declining external

Government's FY 1992 Outlook for Real Gross National Product

	Original FY 1991 <u>Outlook</u>	Revised FY 1991 <u>Outlook</u>	Initial FY 1992 <u>Outlook</u>
	(percentage change)		
Real Gross National Product	3.8%	3.7%	3.5%
Contribution of Domestic Demand	4.0	2.8	3.6
Contribution of External Demand	-0.2	0.8	-0.1
Nominal Gross National Product	5.5	5.5	5.0
Wholesale Prices	-0.1	-0.4	-0.2
Retail Prices	2.4	2.9	2.3
	(billions of dollars)		
Current Account Surplus	\$30.0	\$72.5	\$71.0
Trade Surplus	56.0	98.5	96.5

Source: Economic Planning Agency

surplus will be a drag on GNP in the year starting April 1. That, in fact, is what Tokyo expects, but at the same time it sees domestic demand growing 3.6 percent, up from 2.8 percent in FY 1991.

The government's real GNP growth figure barely overlaps the range of 21 private-sector forecasts. Only the perennially optimistic Research Institute of the National Economy, which forecasts inflation-adjusted GNP growth at 4 percent and real capital spending up 5.2 percent, exceeds the government estimates of 3.5 percent and 4.5 percent, respectively. Dai-Ichi Kangyo Bank, Ltd. and Nomura Research Institute are the most pessimistic, with forecasts of 2.3 percent real overall growth and decreases in plant and equipment spending of 0.1 percent and 1 percent, respectively. Taking the average, business forecasters anticipate 3 percent real GNP growth and a 2.4 percent real increase in capital investment. Most surveyed institutions also envision greater growth in the current account imbalance than does the government, with a \$77.4 billion surplus being the average projection. However, the most recent forecast among the 21 predictions, made December 18 by the respected Japan Economic Research Center, suggests that the current account surplus could come in at a whopping \$105.5 billion in FY 1992, enough to establish a new record.

Economists outside Japan generally share the outlook of Japanese business forecasters. For example, the Organization for Economic Cooperation and Development predicted December 19 that real economic growth in calendar 1992 would equal 2.4 percent compared to an estimated 4.5 percent in 1991. It also projected that real plant and equipment spending would grow 2.4 percent against an estimated 7 percent increase in 1991 and that the current account surplus would equal \$82 billion, up from an anticipated \$70 billion in 1991. Such figures are not directly comparable to the Japanese forecasts; Japanese business economists' calendar year GNP projections generally are more conservative than their fiscal year ones. For example, Nomura Research Institute expects 2.3 percent real GNP growth in fiscal 1992 and 2 percent growth in calendar 1992. If either the OECD or Nomura is right about this year, Japan will end 1992 with the slowest rate of growth since the economy contracted 0.8 percent in 1974, the time of the first oil shock.

Douglas Ostrom

FY 1992 Spending Plan Tightly Targeted

The cabinet of Prime Minister Kiichi Miyazawa approved a trim general account budget for FY 1992 on December 28, one that reflects the smallest overall spending increase since FY 1987. Nonetheless, the blueprint targets specific items for substantial increases by reprogramming funds from other areas. Although the Ministry of Finance traditionally has hewed to an austere line on general account spending, lower-than-expected tax revenues in FY 1991 and similarly weak prospects for FY 1992 made clear to all government agencies the need for fiscal restraint. At the same time Tokyo's drive to play a larger role in global political and economic affairs pulled budget planners in the opposite direction.

At the start of the FY 1992 budget process in mid-1991 the cabinet of then Prime Minister Toshiki Kaifu approved an initial overall increase of 5.2 percent for general account outlays (see *JEI Report* No. 26B, July 12, 1991). The initial round of budget requests submitted in August amounted to an 8.3 percent gain (see *JEI Report* No. 34B, September 13, 1991). Since then, however, it has become clear that slower domestic economic growth is cutting revenues far more than expected (see *JEI Report* No. 41B, November 1, 1991), generating a rush to cut spending and to boost revenues (see following article). The tiny net addition of Y266 billion (\$2 billion at Y135=\$1.00) to FY 1991's general account, approved December 13 by the Diet, was the first concrete sign of Tokyo's budget distress. The tight revenue prospects became even clearer when the cabinet approved a modest 2.7 percent overall increase to Y72.2 trillion (\$535 billion) in the initial general account budget for FY 1992.

By category, however, discretionary general account outlays show a 4.3 percent gain, which reflects healthy increases in some line items but large drops in others (see Table 1). Excluding the

Table 1: Summary of General Account Outlays, FY 1991-FY 1992

(in billions of yen)

	Initial FY 1991	Initial FY 1992	Change
<u>Discretionary Items</u>			
Social Security	¥12,212.8	12,737.4	4.3%
Education and Science	5,394.4	5,683.4	5.4
Pensions	1,808.4	1,783.9	-1.4
Defense	4,386.0	4,551.8	3.8
Economic Cooperation	845.9	905.1	7.0
Public Works	6,521.4	7,956.1	22.0
Disaster Reconstruction	68.2	68.2	0.0
Small Business Measures	195.0	195.6	0.3
Food Control Programs	373.2	342.1	-8.3
Energy Measures	592.1	631.3	6.6
Administration and Operations	4,354.1	4,577.3	7.5
Transfer of NTT Proceeds to Public Works	1,300.0	216.6	-83.3
Infrastructure Investment	135.0	0.0	-100.0
Reserves	150.0	350.0	133.3
Subtotal	38,336.5	39,998.8	4.3
<u>Nondiscretionary Items</u>			
Transfers to Local Governments	15,974.9	15,771.9	-1.3
Debt Service	16,036.0	16,447.3	2.5
Subtotal	32,010.9	32,219.2	0.7
Total	70,347.4	72,218.0	2.7

line item for reserves, public works expenditures lead the list of winners with a 22 percent increase, but this is deceptive, as explained below. Next in line with increases are administrative and operating costs (7.5 percent), economic cooperation (7 percent), energy measures (6.6 percent), education (5.4 percent), social security (4.3 percent) and defense (3.8 percent). The spending levels for economic cooperation and defense were particularly controversial due to the rapidly changing global situation (see articles in this issue).

Spending within each of these line items also indicates Tokyo's priorities. Funds for United Nations peacekeeping operations, for example, are up 20 percent at ¥1.5 billion-plus (\$11.5 million). Environmental programs also show gains; funds to transfer pollution control technology to developing countries will jump 86 percent to ¥1.4 billion (\$10.4 million). Social programs, such as home care for the elderly, nurses' training and child care for workers, enjoy solid gains. Funding for basic research at universities will go up 9.7 percent to ¥64.6 billion (\$478.5 million), and another 230 foreign students will be brought to Japan at the government's expense, making a total of 3,195 in FY 1992.

At the other end of the budget scale food control programs and pensions are being cut; two other categories show little change. More worrisome to budgeters in the long run are the elimination of the special ¥135 billion (\$1 billion) infrastructure investment allocation and the deep cut in the transfer of funds to public works from the sale of Nippon Telegraph and Telephone Corp. stock. By paring these two items, total public works spending in the general account budget shows only a 4.5 percent gain, much less than the 22 percent mentioned above. The breakdown of combined public works outlays in the general account, however, indicates solid gains almost across-the-board (see Table 2).

The depth of Tokyo's revenue predicament is highlighted by the reduction in transfers to local governments. Normally transfers are determined by a long-standing revenue-sharing formula (see JFI Report No. 41A, November 1, 1991), but the current lowering of revenue estimates made the central government desperate enough to risk a backlash by cutting this item 1.3 percent.

The Miyazawa government has not ignored the increasing number of voices both at home and abroad calling for fiscal stimulus to keep the economy growing, however. It approved a 10.9 percent gain in the Fiscal Investment and Loan Program, the second, capital budget (see Table 3).

Table 2: FY 1992 Public Works Spending Plan*

(in billions of yen)

	Initial FY 1991	Initial FY 1992	Change
Flood Control	Y1,366.7	Y1,428.2	4.5%
Roads	2,198.8	2,300.0	4.6
Harbors and Airports	625.6	650.6	4.0
Housing	885.9	931.1	5.1
Water Supply and Sewers	1,269.8	1,340.9	5.6
Agricultural Projects	1,068.8	1,109.4	3.8
Other	12.3	12.9	4.8
Forestry Projects	207.4	219.0	5.6
Repayment of Interest-Free Loans	114.7	110.7	-3.6
Subtotal	7,753.8	8,102.7	4.5
Disaster Relief	68.2	68.2	0.0
Total	7,818.2	8,170.9	4.5

*Includes transfer of proceeds from the sale of government-owned shares of Nippon Telegraph and Telephone Corp. to the special account for public works.

Table 3: Fiscal Investment and Loan Program Outlays, FY 1991-FY 1992

(in billions of yen)

	Initial FY 1991		Initial FY 1992	
	Amount	Change	Amount	Change
Housing	Y9,474.5	13.3%	Y9,799.3	3.4%
Other Social Infrastructure	4,293.3	1.7	5,157.9	20.1
Welfare	1,026.1	20.4	1,109.7	8.1
Education	582.4	5.1	582.9	0.1
Small Business	4,494.5	3.6	4,830.1	7.5
Agriculture	908.2	3.7	907.9	-0.0
Land Conservation and Disaster Relief	330.6	0.6	374.0	13.1
Roads	2,983.2	10.5	3,375.3	13.1
Transportation and Communications	1,468.1	-36.3	2,230.4	51.9
Regional Development	709.0	3.9	824.6	16.3
Industry and Technology	937.7	17.7	965.6	3.0
Trade Promotion and Economic Cooperation	1,898.0	18.4	2,104.5	10.9
Capital Utilization	7,700.0	10.8	8,540.0	10.9
Total	36,805.6	6.5	40,802.2	10.9

Within the capital budget there are several standouts, such as transportation and communications (up 51.9 percent, mainly for airport and road improvements) and social infrastructure other than housing (rising 20.1 percent). As for FILP funding, the FY 1992 figures show a continued trend toward severing FILP's link to the general account through the Industrial Investment Special Account and decreased reliance on borrowed funds (see Table 4).

The final round of preparliamentary budget negotiations, which take place after MOF has submitted its draft budget but before the cabinet approves a budget for submission to the Diet, was somewhat unusual this cycle. Education clearly got the biggest absolute increase in funding but in terms of percentage change was fourth (at 1.3 percent), behind pensions (2.8 percent), economic cooperation (2.1 percent) and miscellaneous (1.9 percent). Despite Y100 billion (\$740.7 million) in unallocated funds in MOF's draft budget, administrative expenses were cut by Y103 billion (\$763 million) to provide further funding flexibility (see Table 5).

Table 4: Fiscal Investment and Loan Program Revenues, FY 1991-FY 1992

(in billions of yen)

	<u>Initial FY 1991</u>		<u>Initial FY 1992</u>	
	<u>Amount</u>	<u>Change</u>	<u>Amount</u>	<u>Change</u>
Industrial Investment Special Account	Y65.7	2.5%	Y58.1	-11.6%
Trust Fund Bureau Fund	29,134.9	2.4	33,489.1	14.9
Postal Savings	8,800.0	22.2	9,900.0	12.5
Pension Contributions	6,430.0	16.1	7,230.0	12.4
Other Revenues	13,904.9	-11.5	16,359.1	17.6
Postal Life Insurance Fund	6,305.0	4.1	6,055.0	-4.0
Government-Guaranteed Bonds and Borrowings	1,900.0	-5.0	1,800.0	-5.3
Total	37,405.6	2.3	41,402.2	10.7

Table 5: Proposed and Approved Initial FY 1992 Discretionary Outlays

(in billions of yen)

	<u>Proposed</u>	<u>Approved</u>	<u>Change</u>
Social Security	Y12,702.6	Y12,737.4	Y34.8
Education and Science	5,612.5	5,683.4	70.9
Pensions	1,734.8	1,783.9	49.1
Defense	4,536.9	4,551.8	14.9
Economic Cooperation	886.3	905.1	18.8
Public Works	7,956.1	7,956.1	0.0
Disaster Reconstruction	68.2	68.2	0.0
Small Business Measures	193.1	195.6	2.1
Food Control Programs	342.1	342.1	0.0
Energy Measures	619.3	631.3	12.0
Other	4,680.3	4,577.3	-103.0
Infrastructure Investment	0.0	0.0	0.0
Reserves	350.0	350.0	0.0
Unallocated Expenses	100.0	--	

MOF has employed the trick of "robbing Peter to pay Paul" in previous budgets, but falling revenue forecasts combined with increased domestic and international obligations have made the gap between Peters and Pauls much wider in the FY 1992 spending plan. Nevertheless, the government's spending decisions have not generated popular outcry; nor are they likely to encounter difficulties in the Diet. The same response may not apply to the revenue side of the picture.

Jon Choy

FY 1992 Revenue Plans Draw Fire

The ruling Liberal Democratic Party again is in hot water with constituents over tax policy. In FY 1987 and FY 1988 popular outcry against the LDP's proposal to introduce a 3 percent general consumption tax, combined with a political influence-peddling controversy, appeared to threaten the LDP's hold on power. While the furor over the consumption tax and the political scandal has died down, sluggish growth in tax revenues as a result of the slowing economy retrained a spotlight on tax policy as the government prepared its FY 1992 budget.

From FY 1988 through FY 1990 the Ministry of Finance enjoyed an embarrassment of revenue riches as real estate and stock markets boomed and corporations rang up record profits. The good times apparently are ending in FY 1991; all three "boomers" have experienced downturns. Compounding these developments is the general slowdown of domestic economic activity, which naturally translates into lower rates of tax revenue growth. Data on tax and stamp receipts for the latest three months of FY 1991 show that proceeds from the securities transaction tax lag the most (see Table 1); September 1991's receipts, in fact, amounted to only 46.9 percent of the amount collected during the same month of 1990. And, while this percentage rose to 76.3 percent for November, revenues from securities deals collected over the first eight months of FY 1991 (April-November) still amount to less than 57 percent of that collected over the same period of the prior fiscal year.

Of greater absolute importance are lagging corporate tax revenues. According to the initial budget figures for FY 1991, corporations were projected to account for 27.4 percent of total general account revenues. As FY 1991 has progressed, however, MOF analysts have grown increasingly concerned because corporate tax revenues are failing to meet expectations. Their worries reached a peak in September when figures showed a gap of almost 20 percent between receipts in the first half of this fiscal year and the comparable FY 1990 period. Although the year-to-date deficit shrank to just over 9 percent by November, MOF analysts now fear that corporate taxes for all of FY 1991 will be below the previous fiscal year's total.

Cumulative tax and stamp revenue figures through November were running just slightly under the levels of FY 1990; against the background of a slowing economy such a situation does not sound like a disaster. When compared to MOF's original FY 1991 projection of a 6.5 percent increase in tax and stamp revenues, however, the shortfall is stark. Even tax collections that were up as of November were performing below expectations. Personal income tax collections through November, for example, were up 5.7 percent over the same period in FY 1990 but well short of MOF's predicted 20 percent-plus expansion.

While forcing MOF to take an even tougher stance against increased aggregate spending in the upcoming fiscal year (see preceding article), the revenue shortfall is not the only force behind the appearance of a multitude of "revenue enhancement," or taxation, options. At home are calls for a more stimulative fiscal policy to keep the economy from slowing further. On the international front Tokyo faces expectations of a greater Japanese role in global affairs, and that naturally means spending more on foreign aid, collective security and other global problems, such as Third World debt and environmental protection.

Table 1: Monthly Tax and Stamp Revenues, September-November 1991

(percentage of revenues for same month of previous year
and of cumulative fiscal year revenues through that month)

	September		October		November	
	Month	Year	Month	Year	Month	Year
Direct Taxes						
Personal Income Taxes	102.4%	104.7%	105.8%	104.8%	111.2%	105.7%
Withheld	102.8	104.6	105.9	104.8	113.8	105.7
Self-Assessed	90.5	105.0	105.1	105.0	106.1	105.5
Corporate Income Taxes	103.5	80.1	94.9	82.5	98.4	90.9
Inheritance and Gift Tax	116.8	108.9	159.2	116.3	160.1	122.1
Indirect Taxes						
Consumption Tax	101.0	95.8	98.6	96.7	103.3	100.3
Liquor Tax	100.3	105.6	94.4	103.4	102.1	103.2
Tobacco Tax	103.3	103.5	98.1	96.7	100.3	102.2
Gasoline Tax	98.0	103.3	102.2	103.1	103.0	103.1
LPG Tax	96.4	98.3	97.5	98.2	94.2	97.5
Aviation Fuel Tax	108.3	107.0	104.9	106.6	109.4	107.0
Petroleum Tax	97.9	109.4	112.8	110.1	96.6	107.6
Bourse Tax	102.5	99.9	118.9	102.6	95.1	101.4
Securities Transaction Tax	46.9	51.1	77.4	54.4	76.3	56.8
Motor Vehicle Tonnage Tax	100.5	99.8	97.3	99.8	99.0	99.8
Customs Duty	110.8	105.4	112.5	106.8	110.0	107.3
Tonnage Due	99.9	104.7	97.5	103.6	100.4	103.2
Stamp Revenue	86.1	85.3	87.1	85.8	92.8	87.1
Total Tax and Stamp Revenue	100.9	97.7	102.5	98.4	102.7	99.7

Source: Ministry of Finance

Several proposals have surfaced to fund these diverse needs, including: imposing new taxes or raising the rates of existing levies to support an "international contribution" fund; extending beyond their planned FY 1991 life a surtax on corporate income taxes and a higher tax on gasoline -- imposed originally to fund Japan's contribution to the multinational coalition that liberated Kuwait from Iraqi occupation; maintaining the excise tax on cars and lightweight-trucks at 6 percent rather than dropping it to 3 percent in FY 1992 as originally planned; increasing the consumption tax rate from its current 3 percent level; and freeing earmarked tax revenues to fund general operations. (For more details, see *JEI Report No. 46B*, December 13, 1991.)

The "international contribution" fund -- proposed by key LDP officials seemingly on the spur of the moment in early December after the government's peacekeeping operations bill appeared doomed in the Diet's upper house -- was meant to bolster Tokyo's foreign aid program and allow Japan to participate more freely in multilateral actions as well as to respond quickly during an international crisis. The proposal went nowhere, however, in large part because the fund's proponents had not laid the groundwork. Moreover, the fund's ¥1.3 trillion (\$9.6 billion at ¥135=\$1.00) price tag became untenable as the depth of the revenue shortage grew apparent. Opposition to the other tax proposals also arose in many different corners. The LDP, however, has drawn up a compromise FY 1992 tax package for submission to the Diet. Included are:

- A 2.5 percent surcharge on corporate income tax payments over ¥4 million (\$29,600). The surcharge actually is identical to this fiscal year's special Persian Gulf War levy on corporate income taxes, but the threshold will be raised from ¥3 million (\$22,200).

- The existing excise tax on new cars and light trucks will be cut from 6 percent to 4.5 percent. The 6 percent rate was to drop to 3 percent -- the rate of the consumption tax, which replaced the commodity taxes on other products in FY 1989 -- on April 1. The LDP thus split the difference between those arguing for a continued 6 percent levy and those in favor of a 3 percent rate.

- No compensating cuts in personal and corporate income taxes will be made when a new land-holding tax goes into effect at the start of FY 1992. When the tax was approved last year the LDP pledged to consider offsetting tax reductions. Receipts from the new tax (estimated at Y200 billion -- \$1.5 billion -- in FY 1992) will be considered general revenues rather than earmarked for land-price stabilization as originally planned.

- The tax credit for firms operating at a loss will be eliminated.

- Real estate inheritance taxes will be calculated on 80 percent of the property's assessed value, rather than the current 70 percent. An increase in the tax-exempt amount of inherited real estate plus lower tax rates will offset the burden from the change in the base calculation; real estate tax revenues are expected to be unaffected by these changes.

Several LDP-drafted tax provisions target foreign companies. Among them:

- Newly established Japanese subsidiaries of foreign firms will enjoy special lower corporate income tax rates.

- Interest paid on treasury bills to foreign firms will be tax-exempt.

- Foreign firms that borrow more than three times their capital from overseas sources will not be able to deduct all of their interest costs.

Despite these tax gymnastics, which are projected to generate an additional Y730 billion (\$5.4 billion) or so in FY 1992, the government projects that tax and stamp receipts will increase only 1.2 percent in FY 1992 (see Table 2). Given this slim gain, Tokyo expects to borrow more to cover the widening gap between revenues and expenditures. After years of driving down new issues of government debt, MOF will borrow an extra Y1.9 trillion-plus (\$14.1 billion) in FY 1992 than in the current fiscal year through the issuance of construction bonds. If the economy slows further and tax

Table 2: Summary of General Account Revenue Estimates, FY 1991-FY 1992

(in billions of yen)

	Initial FY 1991	Initial FY 1992	Change
Tax and Stamp Receipts	Y61,772.0	Y62,504.0	1.2%
Nontax Receipts	1,932.4	2,217.4	14.7
Proceeds from Sale of NTT Shares	1,300.0	216.6	-83.3
Bonds	5,343.0	7,280.0	36.3
Construction	5,343.0	7,280.0	36.3
Deficit-Financing	0.0	0.0	0.0
Total	70,347.4	72,218.0	2.7

Source: Ministry of Finance

receipts continue to lag below projections, more borrowing may be necessary. While many analysts inside and outside the government criticize the LDP's FY 1992 tax proposal as merely a Band-aid for fiscal policy, the ruling party has more than fiscal concerns in mind; upper house elections are slated for mid-1992. A political party that has held power for more than 40 years apparently adheres to the axiom that a party in power that raises taxes in an election year soon will be out of power.

Jon Choy

Foreign Aid Boosted In Japan's FY 1992 Budget

Although decreasing tax revenues impose strict limits on the FY 1992 budget, the plan approved by Prime Minister Kiichi Miyazawa's cabinet December 28 included a significant boost for official development assistance. The foreign aid budget is set at Y952.2 billion (\$7.1 billion at Y135=\$1.00), a 7.8 percent increase over the comparable FY 1991 number. Although the projected rise in foreign aid outlays is the lowest since FY 1988, it is more than double the increase set for the FY 1992 defense budget (see following article). That gain represented a compromise between the 10.1 percent boost originally sought by the Ministry of Foreign Affairs and the 5 percent increase proposed by the Ministry of Finance.

The boost in foreign aid spending at a time of limited increases in other types of expenditures reflects the growing recognition in recent years of Japan's international responsibilities, an issue that came to the forefront of the political agenda in 1991. Last year was marked by early criticisms of Japan's contributions to the Persian Gulf crisis, both in terms of initial offerings and the successive legislative delays that prevented enactment of a bill that would have allowed Self-Defense Forces personnel to be dispatched abroad to assist United Nations-sponsored peacekeeping operations (see JEI Report No. 47B, December 20, 1991). The mid-December demise of a proposal to introduce new taxes or increase rates on existing levies to fund international contributions (see preceding article) further stymied efforts by successive prime ministers to give Japan a more active role in world affairs.

Following agreement on the 7.8 percent ODA rise, Foreign Minister Michio Watanabe indicated that the increase would enable Tokyo to meet its 1988-92 target of disbursing \$50 billion in official development assistance. Current Japanese government estimates place aid disbursements between 1988 and 1990 at \$27.3 billion, however, leaving some analysts skeptical that Tokyo can reach its target in the remaining two years of the fourth medium-term plan; even a dramatic appreciation of the yen against the dollar might not be quite sufficient, they calculate.

Of the Y952.2 billion (\$7.1 billion) authorized for foreign aid in the upcoming fiscal year, Y905.1 billion (\$6.7 billion) is under the economic cooperation line item in the general account budget; the remainder is included in other general account line items. These funds will be augmented by money from the Fiscal Investment and Loan Program, a second, capital budget.

According to Japanese news reports, Y227.8 billion (\$1.7 billion) of the FY 1992 ODA budget will be used for bilateral grants, 7.2 percent more than budgeted for the current fiscal year. Japanese government officials reportedly attribute the increase in this category to new economic assistance needs for such countries as Cambodia and Vietnam. Of the bilateral-grant figure Y185.5 billion (\$1.4 billion) will be directed to the poorest of the developing nations. The budget also includes Y1.5 billion-plus (\$11.5 million) for United Nations peacekeeping operations, an increase of 20 percent over this fiscal year, which ends March 30.

The FY 1992 budget addresses one frequently cited weakness of Japan's foreign aid program -- the shortage of trained aid experts -- by increasing the number of Japanese to be dispatched abroad by 65, bringing the total to 1,884. It also will expand the total number of participants in the Japan International Cooperation Agency's overseas volunteer program by 30 and provide technical training in Japan for an additional 250 individuals from developing countries, bringing the number of foreign trainees to 6,620.